Book Reviews

The Social Economics of Poverty: On Identities, Communities, Groups, and Networks

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As recently as 150 years ago, a much greater unity existed within the social sciences than does today. The great social thinkers of the nineteenth century, such as Ricardo, Mill, and Marx, as well as their predecessors, Smith and Hume, did not regard themselves as economists, political scientists, or sociologists. They were moral or social philosophers, whose work routinely ignored the somewhat artificial divisions that only later emerged around these disciplines by the early 20th century. Many of these divisions grew to be methodological: Marshall's *Principles of Economics* (1890) solidified the use of mathematics and deductive reason as a methodological norm in economics. Weber's *Protestant Ethic* solidified a more inductive, descriptive methodology in sociology. These methodological divisions led to certain caricatures, as Lawrence Blume mentions in his chapter of *The Social Economics of Poverty*:

> *Homo economicus* and *homo sociologus* are the two straw men of social science. For *homo economicus*, each social act is a considered choice, an exercise in naked self-interest. For *homo sociologus*, there is no choice. Man is a boat without rudder, drifting at the mercy of the powerful tide of social forces (p. 106).

The Social Economics of Poverty is a collection of research contributions from leading development economists funded by the Pew Charitable Trust's Christian Scholars Program. It is the latest example of how the temporarily estranged disciplines of the social sciences are now coalescing into a more united field of inquiry. As the volume illustrates, there are several factors that underlie this recent burst of inter- and cross-disciplinary work between anthropology, sociology, political science, psychology, and economics. Foremost is the rapid adoption of game theory among social scientists, which has provided a formal, mathematical tool of investigation that is able to probe at a broad array of issues far more abstract than the easily quantifiable *P*'s and *Q*'s of traditional economics. Second is the growing appreciation for the limits of traditional economic models in explaining economic behavior, particularly poverty traps. It is in trying to understand poverty traps where the traditional assumptions of strict individual utility and profit maximization appear to provide the least explanatory power for understanding real-world phenomena. Why, for example, will peasant farmers reject a new technology that clearly appears to be more productive than the current technology? Why will inner-city teenagers adopt self-destructive behaviors that would appear (at least to economists) to be operating against their own interests?

As the subtitle of the volume indicates, there is a rapidly increasing appreciation in the last several years among economists for the role played by identity, community, and social networks in economic decision-making. In fact, the lineup of contributors to this volume is impressive, reading something like a "Who's Who in Development Economics." It includes chapters by Glenn Loury, Debraj Ray, Samuel Bowles, Ravi Kanbur, Karla Hoff, George Akerlof, Rachel Kranton, Chris Udry, Michael Carter, Marcel Fafchamps, Andrew Foster, Jean-Philippe Platteau, and others. Chris Barrett himself contributes an excellent chapter on peasants and social networks. The book itself is evidence that the appreciation for the influence of social phenomena in economics has rapidly taken over the mainstream.

As *The Social Economics of Poverty* reveals, understanding the role of *identity*, at both the individual and group level, in economic decision-making may be one of the most important breakthroughs in economics during recent years. The seminal paper on the importance of identity—a person's sense of self—was a 2000 article by George Akerlof and Rachel Kranton, "Economics and Identity," that appeared in the *Quarterly Journal of Economics*. Like Akerlof's famous "Lemons" paper (1970) that ultimately won him a Nobel Prize, the identity paper with Kranton has unleashed a flurry of new research, incorporating their identity framework into a host of applications that help us to understand phenomena that had remained unsolved mysteries in the structure of traditional economics.

As they point out, some identities are, at least in part, chosen (for example in a U.S. high school: "jocks," "burnouts," or "nerds") while others are given exogenously (such as "man" or "woman," and "black" or "white"). In the developing world, one might have an identity as "an evangelical Guatemalan female day laborer in the coffee-growing village of Pachaj," a "Pashtun Moslem herdsman in Afghanistan," or a "Hutu Rwandan cab driver" each carrying its own prescription for behavior. People then choose an identity, to the extent they can, and then make choices within this identity that are consistent with a *prescription* for behavior that within the identity represents a particular *ideal*.

Several chapters in *The Social Economics of Poverty* pursue applications of this identity concept in their work. Akerlof and Kranton follow up their own *QJE* article with a chapter which argues that a person born into a particular identity, say an American inner-city black male, may optimize by orienting individual behavior towards fulfilling the ideal prescription for, say, a "gangster" rather than a "nerd," since he may view the "nerd" ideal as unobtainable by virtue of his skin color. In short, this may lead people who look like "nerds" to spend more time doing schoolwork, while leading people who "look like" gangsters to behave like the most successful gang member possible and to punish those among their peers who do not. Their chapter concludes with policy suggestions about how schools can alter their "ideal" academic expectation in order to prevent deviant behavior based on the degree that social differences matter to students and the diversity of the student population.

In their chapter, Glenn Loury and Hanming Fang argue that personal identity principally concerns self-perception and self-representation. They present a two-stage game in which individuals realize incomes and make identity choices in the first stage, and engage in a group risk-sharing game in the second stage in which each benefits from exchange with others in a community. They show how it is possible for a dysfunctional (victimized) identity to emerge within a community of individuals. This happens when individuals have an incentive to adopt a "pessimistic" code of communication, where moderate levels of income can become translated into a negative historical narrative which allows them to make a claim on others in the second phase of the game. A "victimization" equilibrium occurs when in the second stage, a negative historical narrative becomes a dominant strategy within the community, resulting in a kind of dysfunctional "tragedy of the commons" outcome, in which the whole community suffers from underachievement.

Duclos, Esteban, and Ray examine identity in the context of income distribution in what they call an identification-alienation framework. The authors develop a measure of societal "polarization" non-parametrically using kernel density techniques. They describe a society that is increasingly "polarized" when, in income/population density space, large density masses (representing identification within a community) exist relatively far apart from one another (representing alienation). This fascinating measure of polarization creates a rich empirical measure of societal gaps that challenges the traditional Gini coefficient commonly employed in development economics.

The work on identity helps us not only to better understand and even empathize with the behavior of those stuck in poverty traps, but helps us each to understand our own choices as products of our own chosen identities. For example, the fact that a tenured professor might spend hundreds of hours crafting a research paper without monetary remuneration would appear irrational to a businessperson, but would be perfectly rational in the context of one's identity as an academic. This better understanding of the role of identity helps us to identify with the apparent "irrationality" of gang violence, drug use, and other pathologies that can cause subsections of the population to remain in poverty, and gives us a framework for devising better solutions to such problems.

The importance of *social norms* in understanding poverty and development problems represents a second important theme within the volume. Laurence Blume and Samuel Bowles present separate research in which they use evolutionary game theory to study the relationship between social norms and poverty traps. Bowles' contribution is particularly noteworthy. He illustrates the relationship between equality and the persistence of a social contract by invoking (Peyton) Young's Contract Theorem, which demonstrates that the most persistent convention is that which maximizes the payoff to the group with the smallest relative payoff. Because egalitarian social norms create a larger "basin of attraction" in the spatial dynamics of the evolutionary game, egalitarian norms establish a convention that is both "accessible" and "robust," meaning that society is more likely to arrive at the convention in the first place, and once it does, a transition away from the equilibrium norm is unlikely.

Not all of the articles are of a theoretical nature. A fascinating study by Michael Carter and Marco Castillo uses experimental methods to understand the importance of trust and altruism in the recovery from the Hurricane Mitch disaster in Honduras. The authors carry out experiments using "dictator" and "trust" games to obtain measures of altruism within communities affected by the hurricane. Controlling for endogeneity, they find that trust and altruism are correlated with significantly quicker post-disaster recovery in standard OLS and quantile regressions. In communities that displayed low levels of trust and altruism, recovery from the hurricane was much slower.

Although trust and altruism are common within socially homogeneous groups, Christopher Barrett shows that social homogeneity within groups can sometimes inhibit information transmission between social networks about modern behaviors and technologies. Barrett notes specifically that, "a high degree of homophily (social homogeneity) in a system can inhibit information transmission *between* networks, generating something akin to autarky, manifest in separating equilibria, with some networks in a low-level equilibrium of low productivity."

In such a society there may exist “weak ties” with other social networks, inhibiting the development process. Barrett points specifically to the example of his experience with peasant smallholders in Madagascar, who often maintain they cannot afford fertilizers or new seed, but routinely expend substantial sums of money for a ceremony called *famadihana*—the exhumation and re-shrouding of dead ancestors to be carried out every 3–5 years. Given the widespread practice among the community, individuals risk alienation and a loss of identity by deviating from the practice.

Similarly Karla Hoff and Arijit Sen find that kinship systems, which can allow for beneficial risk-sharing among the poor in the absence of formal insurance mechanisms, may be detrimental to economic development once a society begins to operate under a market system. For example, they construct an example illustrating the troubles with nepotism. Agents coming from kinship-based societies need to be given more powerful financial incentives than others to search for “best match” employees (instead of fulfilling a personal obligation to hire a preferred member of his own kin), creating disadvantages for them in the labor market. They show that escape from a kinship system can be modeled as a coordination game, requiring a critical mass of deviators to move to a system that rewards individual achievement based on merit.

Not all of the papers succeed in their interdisciplinary approach. Some of the more esoteric models will lose the interest of the interdisciplinary reader in a haze of “monotonic equilibria” and “stochastic strategy revision processes” while obtaining less than profound conclusions for understanding the causes of poverty; i.e. in one or two papers, the ends do not seem to justify the means. Taken together, however, the research presented in *The Social Economics of Poverty* offers convincing evidence that interdisciplinary research crossing the boundaries of sociology, psychology, and economics can meaningfully enlighten our understanding of poverty problems, both in the developed and developing world. The fact that top, mainstream development economists have clearly adopted many aspects of this interdisciplinary work as their own research agenda means that such work is not likely to be a passing phenomenon, but rather the direction that the field will be heading in for some time.

The payoff to such research may be substantial: economists have begun to adopt some of the most powerful insights of other social scientists and use them as theoretical insights for their own research. Moreover, applying some of the sharpest tools in the economist’s toolkit—game theory, experimental economics, and econometrics—to the role that social phenomena play in economic behavior may be a critical step to our understanding of the foundations of poverty and prosperity.

The Social Economics of Poverty offers a number of important insights for Christian economists and development practitioners. First, it underscores the fact that people everywhere make decisions not simply as autonomous, rational agents, but as persons who make decisions in the context of their community. Evangelicals in particular are prone to take an individualistic view of the world, a view that is derived not so much from Scripture, as from a Protestant tradition that celebrates individual initiative and choices. Second, the book helps us to understand that redemptive change (economic, social, political, and even spiritual) is far more likely to occur, and probably *ought* to occur, at the level of the community and social network. The Scriptures talk abundantly about the redemption of whole communities, and relatively less about the redemption strictly of individuals within a community. Lastly, *The Social Economics of Poverty* provides profound insight about the importance of *identity* in decision-making. If redemption in Christ can be viewed as the taking on of a *new identity*, we can better understand how decisions within that identity will diverge from those made under a previous identity. Decisions made in the context of the *old identity* may later seem irrational, and decisions made under the *new identity* become understandable in the context of new beliefs about the place and purpose of one's self in the world.

It is indeed fascinating that Barrett, himself a professing Christian, with help from the Pew Charitable Trusts, has assembled such a collection of top (yet mostly secularly oriented) scholars who have produced a volume of such profound insight when viewed through the lenses of both economics and faith.

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